TESTIMONY BY

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GABLES RESIDENTIAL

ON BEHALF OF THE

NATIONAL MULTIFAMILY HOUSING COUNCIL

AND THE

NATIONAL APARTMENT ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

FOR A HEARING ENTITLED

CHAIRMAN'S HOUSING REFORM OUTLINE: PART I

MARCH 26, 2019

Chairman Crapo, Ranking Member Brown and esteemed members of the Committee, it is my privilege to appear before you today to speak on behalf of the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) regarding housing finance for apartment communities. My name is Sue Ansel and I am the President and CEO of Gables Residential.

Gables Residential is an award-winning, vertically integrated real estate company specializing in the development, construction, ownership, acquisition, financing and management of multifamily and mixed-use communities. Gables owns, develops and manages communities in high-growth U.S. markets such as Atlanta, Austin, Boston, Dallas, Denver, Houston, South Florida, Southern California and metropolitan Washington, D.C. Gables also provides third party management services in the New York, Baltimore, Tampa, Phoenix, Charlotte, Central and North Florida markets. Gables manages over 30,000 apartment homes and approximately 430,000 square feet of retail space and has received national recognition for excellence in development, construction, management, sales, marketing, learning and development, benefits and corporate accommodations. These achievements reflect the impact of experienced and dedicated team members, superior knowledge of the markets served and expertise in development and management.

For more than 25 years, the NMHC and NAA have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally.

I appreciate the opportunity to be here today to present the apartment industry's perspective on the role of the Government Sponsored Enterprises (GSEs or Enterprises), Fannie Mae and Freddie Mac. One of the foremost priorities of federal policy makers should be getting multifamily rental right in any housing finance reform effort by recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand.

The bursting of the housing bubble exposed serious flaws in our nation's housing finance system. The very successful multifamily programs of the GSEs were not part of the meltdown and have generated over $37 billion in net profits since the two firms were put into conservatorship. Preservation of the mortgage liquidity currently provided by the GSEs is critical in all markets during all economic cycles. NMHC and NAA urge lawmakers to recognize the unique needs of the apartment industry. We believe the goals of a reformed housing finance system for the multifamily industry must be to:

- Maintain an explicit federal guarantee for multifamily-backed mortgage securities available in all markets at all times and paid for by all users;

- Recognize unique multifamily risk management characteristics when crafting reform legislation; and
- Retain the successful components of the existing multifamily programs in whatever succeeds them.

Each of these goals will be discussed in greater detail later in my testimony. Before I do that, however, allow me to describe some key aspects of the apartment market and how changing demographics will demand a continued flow of capital into this sector if we are to meet the nation's current and future housing needs.

Any discussion of housing finance reform is inherently a discussion of its impact on housing affordability for all households – whether they rent or own their homes. The multifamily rental housing industry is a key component in helping to address the housing affordability crisis we face today. Getting housing finance reform right is critical to addressing housing affordability.

The apartment sector is a competitive and robust industry that helps 39 million people live in homes that are right for them. We help build vibrant communities by offering housing choice, supporting local small businesses, creating millions of jobs and contributing to the fabric of communities across the country. We are a critical sector in the housing industry and our overall economy.

Rental Housing – The Supply-Demand Imbalance

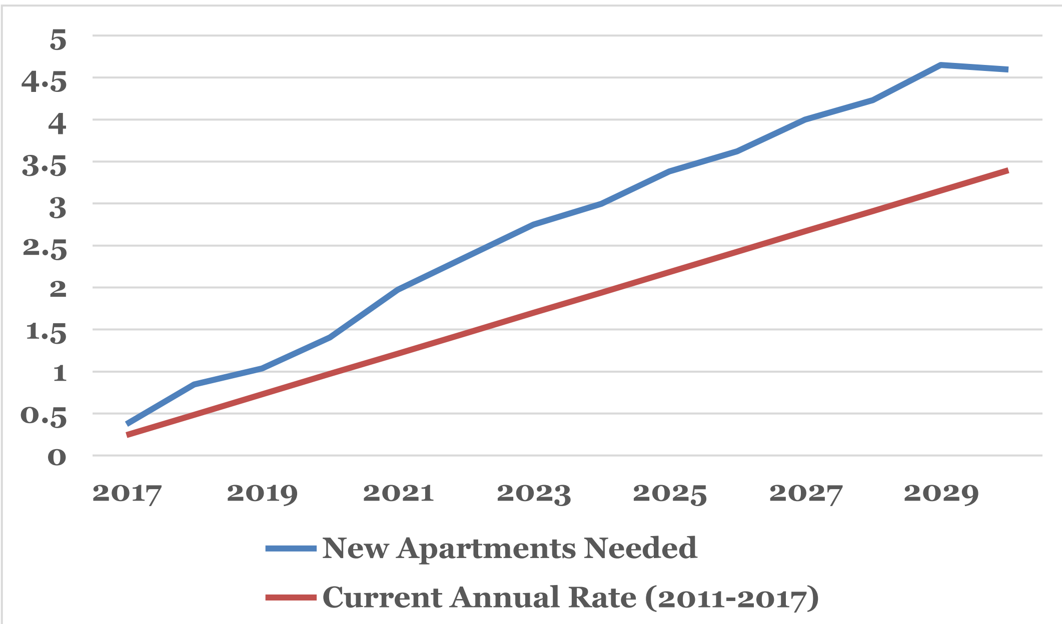
There has been a fundamental shift in our nation's housing dynamics as changing demographics and lifestyle preferences have driven more people towards the convenience of renting. This demand is fueled by several demographic factors. There are over 75 million people between 18 and 34 years old (traditionally the "prime renter" age group) who have recently entered or will soon be entering the housing market, primarily as renters.[1] Similarly, nearly 93 million Americans aged 55 or older have the option of downsizing as their children leave the house, and many will choose the convenience of renting,[2] and we are already seeing that. Over half (59.2 percent) of the net increase in renter households between 2007 and 2017 came from householders 55 years or older.[3] Immigration accounts for a significant portion of apartment demand – over one in four (25.1%) apartment householders were born outside of the United States.[4] Given these demographics, it is unsurprising that the apartment vacancy rate has remained at or below five percent for the past five years.[5]

Beginning in the mid-2000s, the nation experienced the greatest renter wave in its

[1] Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: April 1, 2010 to July 1, 2017, US Census Bureau.
[2] Ibid.
[3] NMHC tabulations of 2017 American Community Survey microdata.
[4] Ibid.
[5] RealPage, Inc.

history, as the number of households that rent rose by at least 7 million.[6] This increased demand creates a critical need for 4.6 million new apartments at all price points by 2030, according to a study conducted by Hoyt Advisory Services and commissioned by the NMHC and NAA.[7] To meet that demand, we will need to build an average of 328,000 new apartments every year. Yet we have only hit that mark twice since 1989.[8]

Apartments Needed by 2030 (Millions)



Source: Hoyt Advisory Services; NMHC and NAA; U.S. Census Bureau.

The western U.S., as well as states such as Texas, Florida and North Carolina, are expected to have the greatest need for new apartment housing through 2030 although all states will need more multifamily rental housing moving forward. Across all markets, the supply of multifamily rental housing at a variety of price points will play a role in promoting economic growth, attracting and retaining talent and encouraging household stability for all American families.

The development of apartments for all income levels is a key component to meeting the nations affordability challenges. Our industry, and particularly apartment owners and developers, face many challenges to development and must balance a wide array of concerns regarding project viability, regulatory cost and compliance at all levels of government. While many regulatory hurdles and costs such as impact fees, continual environmental reviews and antiquated zoning processes lie within the purview of state

[6] Different Census Bureau surveys show different figures.
[7] Hoyt Advisory Services; NMHC and NAA
[8] U.S. Census Bureau, New Residential Construction.

and local policymakers, there are a wide array of existing federal regulations that contribute to making housing less economically feasible to develop and operate. A recent study by NMHC and the National Association of Home Builders (NAHB) based on responses from a variety of multifamily developers throughout the country found that on average, 32 percent of multifamily development costs are attributable to the costs associated with complying with local, state, and federal regulations.[9] In a quarter of cases, that number can reach as high as 42.6 percent. The Committee has an opportunity to examine what role the GSEs could provide in facilitating the reduction of these barriers and promoting the development of apartments for all income levels.

There will also be a growing need for renovations and improvements on existing apartment buildings, which will provide a boost in jobs (and the economy) nationwide. Hoyt's research found that 51 percent of the nation's 20 million-plus apartment stock was built before 1980, which translates into millions of units that could need rehabilitation or renovation by 2030.

The growing demand for apartments – combined with the need to renovate thousands of apartment buildings across the country – will make a significant and positive impact on our nation's economy for years to come. For frame of reference, apartments and their 39 million residents contribute $1.3 trillion to the national economy annually.[10] As the industry continues to grow, so will this tremendous economic contribution.

Many factors influence the apartment industry's health and ability to meet the nation's growing demand for rental housing, but the availability of consistently reliable and competitively priced capital is the most essential.

Our Nation's Housing Affordability Challenge

Housing affordability is a significant challenge facing many Americans today who are seeking to rent an apartment. Any discussion of housing finance reform is inherently a discussion of housing affordability and getting housing finance reform right is a critical component to addressing housing affordability for all income levels.

The increased interest in renting has placed significant pressure on the apartment industry to meet the demand. This is making it challenging for millions of families nationwide to find quality rental housing that is affordable at their income level. For many families, the shortage of rental housing that is affordable creates significant hurdles that make it even more difficult to pay for basic necessities like food and transportation. Ultimately, this also impacts their future financial success.

Those at the lowest end of the income spectrum are especially vulnerable to these problems—one in five renter households earns less than $15,000 annually, and for them an affordable unit is one with a monthly rent of under $400. Yet from 2003 to 2013, 11

[9] NMHC and NAHB, "Regulation: Over 30 Percent of the Cost of a Multifamily Development" (2018)
[10] Dr. Stephen Fuller; NMHC and NAA. "The Trillion Dollar Apartment Industry"

percent of these rentals were permanently lost from the housing stock.[11] This is also the hardest segment to build for without subsidy, given the costs associated with development.

The issue of housing affordability is not unique to lower income households, however. The total share of cost-burdened apartment households (those paying more than thirty percent of their income on housing) increased steadily from 42.4 percent in 1985 to 53.9 percent in 2017.[12] Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually.[13] Affordability is an issue impacting the very fabric of communities nationwide, including our teachers, firefighters, nurses, police officers and their families.

More than one in four apartment households paid more than half of their income on their housing in 2017.[14] Setting aside that real (inflation-adjusted) incomes in the U.S. are only slightly above their 2000 levels, clearly the key factor driving the affordability crisis, housing industry leaders agree that promoting construction, preservation and rehabilitation are three of the vital ways to meet the surging demand for apartment homes.

Addressing the Nation's Housing Affordability Crisis

Policymakers are understandably still struggling to determine the degree to which an ongoing federal role in the multifamily rental finance system should be a part of addressing the nation's affordable housing shortage. We begin by noting that apartments, by definition, are priced to meet the needs of America's affordable and workforce communities. Therefore, the mere extension of a government role to ensure liquidity to the multifamily rental sector is, by definition, supporting affordable and workforce housing.

It is tempting to believe that more can be done through housing finance reform to address affordability. For example, one option previously considered would have limited federal guarantees or other mandated benchmarks to specific loan terms, asset types and other Enterprises lending activities within the broader apartment market. However, we caution policymakers not to overreach as such well-intended moves, if overly prescriptive, could have adverse consequences.

To begin with, one way the GSEs have been able to produce such a stellar performance record in multifamily is by being able to build a balanced book of business where lower-risk, higher- end properties are combined with traditional workforce/middle income multifamily rental housing, as well as with targeted affordable housing properties – such as Section 8 and Low-Income Housing Tax Credit properties – to diversity the GSE risk.

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[11] Harvard Joint Center for Housing Studies, "America's Rental Housing" (2015), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf.

[12] NMHC tabulations of American Housing Survey microdata.

[13] NMHC calculation based on U.S. Census Bureau, Survey of Market Absorption.

[14] NMHC tabulations of 2017 American Housing Survey microdata.

Just as critical, by having a broad market presence and access to a government guarantee, the GSEs' multifamily programs, allow them to provide capital for apartments located in smaller secondary and tertiary markets that do not meet the credit or return standards required by many private capital debt providers. Many of these properties are older and thus affordable to low- and middle- income families without any subsidy from federal, state or local governments. These properties, often referred to as Naturally Occurring Affordable Housing (NOAH) are prime candidates to be repositioned, upgraded, and removed from a communities' affordable housing inventory. Many owners of these NOAH properties rely on expertise of the GSEs to finance the acquisitions of them so owners can maintain their affordability.

The GSEs also use their access to a government guarantee and broad market presence to act as an important funding source for subsidized affordable properties, which frequently have multiple complex layers of financing that require dedicated, significant resources and a highly experienced staff to soundly navigate them. It is unlikely that any housing finance reform that does not retain a federal guarantee could replicate the GSEs' current processes, capacity and knowledgeable staff to serve the subsidized affordable market. Such a loss could create harmful instability in the market for developing and preserving affordable rental housing.

Not only does a broad multifamily lending platform help the GSEs and any successor entities manage risk, but it also ensures that there is a sufficient supply of liquidity in severe market downturns. For instance, in the most recent financial crisis, even firms and properties that would normally be well served by private capital found themselves with no options.

If the successor entities to Fannie Mae and Freddie Mac are more limited in what markets or properties they can serve, they will be unable to fill the critical public policy mission they have historically served. Failure to ensure sufficient liquidity for all types of apartments will have a spillover effect that could be disastrous for America's renters.

Multifamily Performance: A Success Story

We are in the 11th year since the federal government placed Fannie Mae and Freddie Mac, critical providers of capital for the housing industry, in conservatorship. Importantly, conservatorship was conceived as a temporary solution, an interim fix to prevent economic "Armageddon" while a more lasting prescription for the nation's housing finance system could be determined.

The bursting of the single-family housing bubble exposed serious flaws in our nation's housing finance system. Yet, those shortcomings were confined to the single-family residential sector. Unfortunately, the losses experienced in the Enterprises' single-family divisions have overshadowed the strong mortgage financing and credit performance of the multifamily programs. The multifamily programs of the Enterprises were not part of the meltdown and have generated over $37 billion in net profits since the two firms were placed into conservatorship.[15] It is important to note that the multifamily divisions' profitability at the Enterprises has not come at the expense of market discipline, quality underwriting or taxpayer exposure. Since 2008, both Enterprises have sustained industry leading loan performance with delinquencies well below one percent through a generationally disruptive market downturn – and this in spite of the fact that the Enterprises did not retreat from the market when nearly all other debt sources exited.

The need to address the current status of conservatorship is vitally important. Today, when reforming a system as complicated as housing finance, policy makers should not ignore the lessons of the crisis. I encourage you to view the Enterprises' multifamily business models as the roadmap of the multifamily reform effort. A reform effort built on this strong foundation will ensure liquidity, stability and affordability in the housing market — especially for multifamily, which has been a growth engine for the housing market during the economic recovery.

These positive performance metrics are a result of the GSE multifamily programs' adherence to prudent underwriting standards, sound credit policy, effective third-party assessment procedures, conservative loan portfolio management and, most importantly, risk-sharing and risk-retention strategies that place private capital at risk ahead of taxpayers.

As originally designed and subsequently proven during the housing crisis, the Enterprises' multifamily programs serve a critical public policy role balanced with excellent loan performance. Even during normal economic times, private capital alone cannot fully meet the industry's financing demands.

Principles of Multifamily Housing Finance Reform

Many factors influence the apartment industry's health and its ability to meet the nation's growing demand for rental housing, but the availability of consistently reliable and competitively priced capital is absolutely essential. While our organizations remain agnostic regarding the source of our debt financing, we strongly believe capital must be consistently available across all markets and product types. In that spirit, NMHC and NAA urge the Committee to recognize the unique needs of the multifamily rental industry. We believe the goals of a reformed housing finance system should be to:

- Maintain an explicit, appropriately priced and paid-for federal guarantee for multifamily-backed mortgage securities available in all markets at all times;
- Recognize the inherent differences of the multifamily business from the single-family business;
- Promote private market competition;
- Protect taxpayers by keeping the concept of the Enterprises' multifamily first-loss risk sharing models;
- Retain the successful components of the existing multifamily programs in whatever succeeds them; and

[15] Fannie Mae 10-K, Freddie Mac 10-K

- Avoid market disruptions during the transition to a new finance system.

These core set of principles for housing finance reform provide a solid foundation as the Committee addresses the multifamily industry.

Maintain an Explicit Federal Guarantee

The private debt markets are active today, but they failed to meet the apartment industry's broad capital requirements at its greatest time of need during the Great Recession in markets both large and small. In order to prevent this market dislocation again, an explicit paid-for federal guarantee for multifamily-backed mortgage securities should be available in all markets at all times. A private-only housing finance system would result in an abundance of capital for high-end properties in top-tier markets, such as Denver, Colorado, but leave secondary and tertiary markets like Twin Falls, Idaho, or Liberty Township, Ohio, underserved.

Even though my company accesses the majority of our debt from the private markets to build our new properties, knowing that debt capital is available at all times is a critical factor for our ability to develop new apartment homes. But private construction lenders need to feel confident that there is a source of take-out capital at the end of the construction process and the GSEs multifamily programs provide that confidence by operating in all markets.

Private capital is also generally not available or not a good fit for companies trying to acquire and preserve affordable housing. The affordable housing market is extremely complex and often involves numerous funding sources being layered on top of each other, something that many private capital providers consider too complicated. The Enterprises have proven capabilities to understand the complexities of the affordable housing market and have a proven capacity to serve the kinds of opportunities that private capital is often unable or unwilling to address.

Finally, the existence of a government guarantee for multifamily housing creates the marketplace stability and continuity required to attract foreign capital which has become an important source of growth capital for the rental housing industry.

Any federal credit facility should be available to the entire apartment sector and not be restricted to specific housing types or renter populations. Moreover, it would be impossible to turn on and off a government-backed facility without seriously jeopardizing capital flows. The benefit of any federal guarantee should only accrue to the investors of multifamily mortgage-backed securities. Borrowers should pay for this credit-enhancement guarantee in the form of an appropriately priced credit enhancement fee that actuarially insures taxpayers against future losses. The pricing of this guarantee should reflect its underlying value to the industry and the risks it presents to the taxpayers. This guarantee is the single most important determinant of liquidity in the marketplace – without it, liquidity becomes unavailable during recessions and periods of capital markets disruption. The industry can bear the cost paid for this liquidity, but it cannot survive without constant access to liquidity.

Fannie Mae and Freddie Mac have served as the cornerstone of the multifamily housing finance system, successfully attracting private capital to the sector. Unlike any other single source of capital, they offer long-term debt for the entire range of apartment properties (market-rate workforce housing and subsidized properties, large properties, small properties, purpose-built student housing etc.) and they are active in all markets (primary, secondary and tertiary) during all economic conditions.

When credit markets have been impaired for reasons that have nothing to do with multifamily property operating performance, the federally-backed secondary market has ensured the continued flow of capital to apartments.

For example, when private capital left the housing finance market in 2008, the apartment industry relied almost exclusively on Fannie Mae, Freddie Mac and FHA/Ginnie Mae for capital. Between 2008 and 2010, the GSEs provided $94 billion in mortgage debt to the apartment industry. Without the critical backstop provided by the Enterprises, thousands of otherwise performing multifamily mortgages would have gone into default because there were no private capital sources willing to refinance maturing loans. This could have meant disruption to millions of renter households. The GSEs served a similar role during the 1997-1998 Russian financial crisis and in the post-9/11 recession of 2001.

We point this out in an effort to highlight how large a gap private capital would have to fill and to emphasize the public policy mission the existing system has served, ensuring liquidity and avoiding widespread, adverse effects for the millions who rent.

Recognize Differences Between Multifamily and Single-Family Businesses

A one-size-fits-all solution will not work. The two sectors operate differently, have divergent performance records and require distinct reform solutions. The capital sources for multifamily are not as wide or as deep as those financing single-family and the loans themselves are not as easily commoditized.

The GSEs' multifamily programs adhere to a business model that includes prudent underwriting standards; sound credit policy; effective third-party assessment procedures; risk-sharing and risk-retention strategies; effective loan portfolio management; and standardized mortgage documentation and execution.

Moreover, the financing process; mortgage instruments; legal framework; loan terms and requirements; origination; secondary market investors; underlying assets; business expertise; and systems are all separate and unique from single-family home mortgage activities.

We strongly recommend that any reform measure include a separate multifamily title. This separate title should not only address the successors to the GSEs' multifamily programs, but also how the transition to that new system will be handled.

Promote Private Sector Competition

We share the collective desire to have a marketplace where private capital dominates and that has been the case in the multifamily markets. Private capital has always been an integral part of the multifamily housing finance system. In fact, the apartment industry relies on many private capital sources to meet its financing needs, including banks, life insurance companies, the commercial mortgage-backed securities market and, to a lesser extent, pension funds and private mortgage companies.

However, even during healthy times, the private market has been unwilling or unable to meet the totality of the rental housing industry's capital needs. For example, banks are limited by capital requirements and have rarely been a source of long-term financing. Life insurance companies typically make up less than 10 percent of the market, lend primarily to newer and high-end properties and enter and exit the multifamily market based on their investment needs. And a stricter regulatory environment post–financial crisis, has kept the private-label commercial mortgage-backed securities market from returning to previous volumes.

Historically, the apartment industry has relied on a variety of capital sources, each with its own focus, strengths and limitations, to meet its borrowing needs. These capital sources together have provided the apartment sector with debt– reaching as high as $285 billion in 2018[16] – to develop, refinance, purchase, renovate and preserve apartment properties.

Prior to proposing housing reform legislation, the Committee should undertake a comprehensive analysis that the financing sources identified below have the interest and capacity to fill the role of the GSEs. The analysis should also examine adverse consequences to the multifamily market if the GSEs were no longer available to fill their financing needs.

Commercial Banks: Short-Term Financing for Smaller, Local Borrowers

Commercial banks and thrifts generally serve as a source of credit for many borrowers to finance construction, acquisitions and ownership. They typically provide floating rate or short-term fixed rate debt and often their willingness to extend this credit is based on the availability of permanent take-out financing offered by the GSEs.

The banks currently hold 34 percent ($480.0 billion) of outstanding multifamily mortgage debt.[17] They provided limited amounts of capital to the industry during the financial crisis but have taken a much more active role in lending. Banks face constraints on maintaining the recent level of activity due to higher risk-based capital requirements, and new Basel accounting standards, which impose meaningful limits on the ability of banks to provide capital to commercial real estate.

[16] Mortgage Bankers Association
[17] US. Federal Reserve, "Mortgage Debt Outstanding". 4Q2018

Life Insurance Companies: Target High-Quality Properties, Capital Allocations Change with the Market

Life insurance companies tend to restrict their lending to primary markets and to high-quality, newer construction apartment properties. They do not generally finance affordable apartments and their loan terms typically do not extend beyond 10 years. Importantly, they enter and exit the multifamily market based on their investment needs and economic conditions. On average, they generally provide 10 percent or less of the annual capital needed by the multifamily industry, but that number has gone as low as three percent. They currently hold six percent ($80.3 billion) of outstanding multifamily mortgage debt.

FHA/GNMA: Reliable Capital Source but Limited Mortgage Products and Capacity Issues

FHA serves a very different market from Fannie Mae and Freddie Mac, focusing on construction lending and affordable rental properties not served by other sources of capital. FHA offers high-leverage, long-term mortgages with 35-year terms and 80 to 83 percent loan-to-value ratio for the construction, substantial rehabilitation, acquisition and refinancing of apartments. The loans FHA offers are frequently used for construction lending and the financing of affordable apartments. Ginnie Mae securitizes FHA loans and offers them with a full government guarantee.

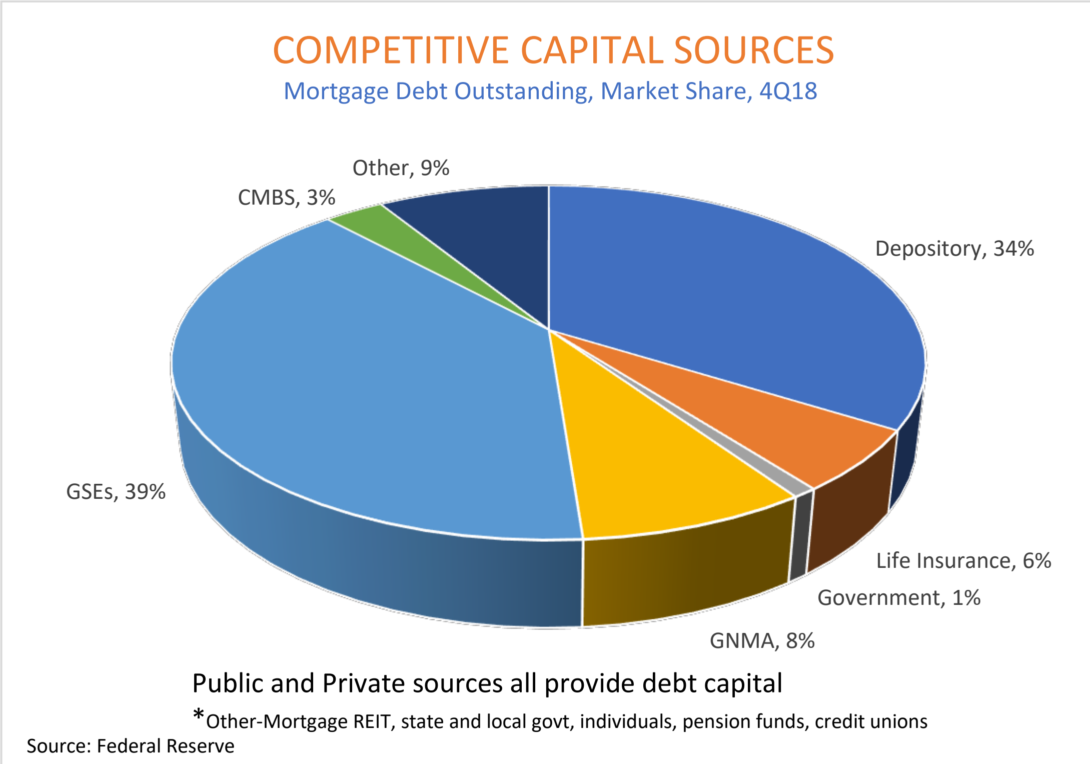
After the 2008 financial collapse, they became a vital source of construction capital and permanent financing for apartments, and now FHA/Ginnie Mae currently holds eight percent ($117.8 billion) of outstanding multifamily mortgage debt.

Capacity issues, long processing times and statutory loan limit requirements prevent FHA from serving a larger share of the multifamily market.

CMBS/Conduits: Volatile Capital Source

The CMBS market did not become a material source of capital to the apartment industry until the mid-1990s. However, the CMBS market completely shut down after the 2008 crisis. Today, the CMBS market is showing some signs of recovery; however, regulatory changes imposed by financial regulatory reform legislation will mean that it will probably not return to its pre-bubble levels of lending.

The CMBS market now holds three percent ($43.4 billion) of the outstanding multifamily mortgage debt, however, it is no longer a major source of debt for the apartment industry and this share is expected to continue to shrink.



It must be noted that in 2012 the GSEs each produced a report commissioned by the Federal Housing Finance Agency (FHFA) that estimated the potential consequences to the apartment sector of eliminating the federal guarantee.[18] According to that research, which was undertaken by the GSEs and independent third-party experts, interest rates would rise, and debt financing capital would fall by 10 to 20 percent. That could result in a 27 percent drop in apartment supply, which could, in turn, cause rising rents to increase nationwide and significant spikes in tertiary geographic markets.

Protect Taxpayers by Continuing Risk Sharing & Private Capital Participation

Each Enterprise utilizes its own risk-sharing models that protect it from losses and places private capital sources in the first loss position. These models worked effectively through the economic downturn in protecting taxpayers from footing the bill to pay for credit losses. As further proof of the proper alignment of interest, the credit losses experienced by the Enterprises multifamily programs were much less than compared to the losses experienced by the other sources of capital to the multifamily industry.

Not only have the GSEs' multifamily programs operated in a fiscally sound manner, they have done so while offering a full range of mortgage products to meet the unique needs of the multifamily borrower and serve the broad array of property types. This includes

[18] https://www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/FNMMF2012ScorecardResponse.pdf
https://www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/FREReport_MF_MarketAnalysis.pdf

conventional market rental housing, workforce rental housing and targeted affordable housing (e.g., project-based Section 8, state and local government subsidized and Low-Income Housing Tax Credit (LIHTC) properties).

In short, the GSEs' multifamily models hit the mark. They have attracted enormous amounts of private capital; helped finance millions of units of market-rate workforce housing without direct federal appropriations; sustained liquidity in all economic climates; and ensured safety and soundness of their loans and securities. As a result of the liquidity provided by the GSEs, the United States has the best and most stable rental housing sector in the world.

Retain Successful Components of Multifamily Programs in Future System

The multifamily programs serve as a model for any successor system for housing finance reform. Replacing and starting a new business model for the multifamily businesses would only serve to disrupt the capital flow to the apartment industry. Preservation of the Enterprises technology, processes and personnel must be a guiding principle as the Committee evaluates a new housing finance system.

Recently, a coalition of 28 real estate trade groups sent a letter to this Committee as well as other key members in the Administration and Congress outlining priorities for preserving access and affordability whether through administrative or legislative housing finance reform. Among the key ideas and principles within the letter is to preserve key reforms that have already taken place at the Enterprises while under conservatorship. The Enterprises multifamily programs performed well during the financial crisis and serve as a model for a successor system but they have continued to evolve and improve their risk management programs, broaden the reach of their loan programs to smaller, rural and affordable markets, honed their focus on housing affordability and workforce housing, and deepened private market participation. Housing reform that does not include preserving this progress would be disruptive to the housing market.

Avoid Market Disruptions During Transition

To avoid market disruption, it is critical that policymakers clearly define the government's role in a reformed system and the timeline for transition. Without that certainty, private capital providers are likely to limit their exposure to the market, which could cause a serious capital shortfall to rental housing. In addition, as has been the case since the GSEs were placed into conservatorship in 2008, it is vital to continue to retain many of the resources and capacity of the existing Enterprises. The two GSEs have extensive personnel and technological expertise, as well as established third-party relationships with lenders, mortgage servicers, appraisers, engineers and other service providers, which are critical to a well-functioning secondary market.

Housing Reform Outline

We appreciate the Chairman's request to provide input to his Housing Reform Outline (HRO) of February 1, 2019. Specifically, the Chairman seeks input on the feasibility of the HRO, the appropriate level and structure of taxpayer protection in front of the security-level government guarantee, the affordable housing framework and the impact on market participants and consumers across all housing and regions.

In evaluating the HRO, or any other housing reform proposal, we are guided by our key principles for housing finance reform as outlined above. We appreciate the distinct treatment of the two systems, in what appears to be an acknowledgment of the differences in structure, market needs and loan performance between the two businesses. However, many of the reform details proposed for the single-family finance system were not included in the HRO for multifamily, instead stating that the multifamily businesses will be privatized. This lack of clarity around what privatization means raises concerns that any major step such as this to the current business structure of the multifamily businesses could be disruptive in the near term, present transition hurdles and leaves the long-term viability of the resulting businesses in question.

Further, if GNMA is to provide access to a government guarantee for multifamily as outlined for single-family, the Committee should first undertake an extensive review of the overall significant economic, technical, personnel and capital market impacts that this decision would create.

As the Committee continues work on a reform proposal for the multifamily industry, NMHC and NAA look forward to working with members on both sides of the aisle to ensure our principles previously described are appropriately reflected in future legislation.

Conclusion

As this Committee continues its important work of assessing and crafting a reformed housing finance model, Congress must understand that a one-size-fits all approach will not work. The meaningful differences between the single family and multifamily sectors, both in how they operate and how they have performed, requires different solutions to avoid putting at risk the 39 million Americans who rely on the apartment industry for their housing.

In keeping with principles for housing finance reform, the apartment industry asks that you focus your efforts on the importance of a government guarantee to ensure capital is available in all markets in all economic circumstances and the important role a government guarantee plays in the development and preservation of rental housing at all income levels in America today.

The existing Enterprise frameworks for protecting taxpayers and requiring private capital participation should serve as a guide for any discussions on a reformed system. By retaining the successful elements of the current system and providing an explicit guarantee for multifamily debt, we believe this Committee can succeed in “doing no harm” to our industry, a goal expressed by members on both sides of the aisle and the administration.

Attachments:

- **OP-ED/The Hill: Congress Can Help Solve the Housing Affordability Crisis 03/06/2019**
- **NMHC and NAA Vision 2030**
- **NMHC-NAHB Cost of Regulation Study June 2018**